

1. Explain the following economic terms and concepts. Refer to your textbook and notes to help you if needed.

Capital employed Money invested in or tied up in productive assets in a firm that enable it to produce goods and services and generate revenues

Market share The proportion of total sales of a product attributable to a firm supplying that market

Merger The combining of two or more business enterprises into a single enterprise under one management team

Takeover The acquisition by one company of all (or a controlling interest) of the shares of another company, with or without the consent of that company - plus example

Horizontal integration The joining together of two or more firms producing similar goods or services at the same stage of production to form a larger enterprise

Vertical integration The joining together of two or more firms at different stages of production of the same product to form a larger enterprise - plus example

Lateral integration The joining together of two or more firms in different industries into a single enterprise - also called corporate merger

Diversification Producing a range of different products for different home and/or overseas markets to spread market risks

Internal economies of scale Reductions in unit production costs enjoyed by a firm as it expands its scale of production

External economies of scale Cost advantages enjoyed by a firm and all other firms in the same industry as a result of the scale of the entire industry being large

Diseconomies of scale Problems that cause unit costs to rise as a firm expands beyond its optimum or most efficient size

Management diseconomies Rising unit costs resulting from an increase in management costs as a firm's size increases - for example, communication problems caused by too many layers of management or too many premises in too many locations to manage effectively

Increasing returns to scale The rise in output following an increase in productive scale is proportionately more than the increase in inputs

Decreasing returns to scale The rise in output following an increase in productive scale is proportionately less than the increase in inputs

2. What economies of scale are the following news articles describing?

Budget airlines including Spice Jet of India, Air Asia in Malaysia and Tiger Airways of Singapore are all planning to diversify into new markets by increasing the number of routes they fly including new long-haul services to Europe and Australia.

Risk bearing

Global fashion company Zara manufactures, distributes and sells all its own clothes using its own fleet of vehicles and through its own retail outlets across the globe. A key part of Zara's overall marketing strategy is to rapidly introduce new clothing lines and have them on sale within its stores for only four weeks until they are replaced. To do this the company controls all aspects of its distribution channel to the final consumer. This enables the company to distribute its new clothes to its retail stores quickly and cheaply to meet its marketing objectives.

Marketing

Italy has one of the strongest textile industries in Europe and is the third largest global supplier of clothing after China and Japan. There are a number of defined clothing districts in Italy. Over time these have attracted a growth in specialized suppliers, which carry out specific phases of the clothing manufacturing process such as dyeing, ironing and embroidering for the main clothing manufacturers. These production phases can add significant value to the final product.

External (ancillary firms)
